COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3926-01
Bill No.: HB 1741
Subject: Health Care; Insurance - Medical; State Employees
Type: Original
Date: March 4, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
All funds	Unknown to ($7,071,658)	Unknown to ($9,324,619)	Unknown to ($10,254,165)
Total Estimated Net Effect on All State Funds	**Unknown to ($7,071,658)**	**Unknown to ($9,324,619)**	**Unknown to ($10,254,165)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration (COA)** state this legislation gives state employees covered by HCP, who decline the health care coverage, the ability to designate how 50% of the employer share will be distributed to them. The employee could designate that the payment be forwarded to another health insurer providing coverage or included in state salary if he or she provides proof that health coverage is provided through a spouse or other employment. The Division of Accounting administers the state central payroll system and is responsible for reporting all income and withholding applicable payroll taxes. Either of these options results in reportable income for the employee. If option one is chosen, the employee would receive the monies as income and be taxed accordingly, with a payroll deduction directed to the insurance provider designated. This would require all the companies used by employees for this purpose to be set up and maintained in the payroll system with separate reports and checks issued to each company each pay cycle. If option two is chosen, the monies would be included in income and be taxed accordingly. With either option, a portion of the monies that are now appropriated to OA as a central appropriation for employer health care coverage would have to be allocated to each agency personal service appropriation. This is necessary in order to include the amounts in the employees income, charge the amounts to the correct state fund and process the payments as a pay event. The additional amount would be sent as a payroll deduction to the employee's insurance provider or remain as part of net pay.

According to HCP, there are 3,315 employees that have opted not to have state health care coverage. The state is paying nothing in employer share for these individuals. Thus, if this legislation is enacted there would be an immediate increase in annual state cost of $7,578,090 (½ of $381 per month x 12 x 3,315), with a 10% increase in cost each year. With the cost of individual health care policies, the number of employees choosing to drop state coverage and have the state pay the ½ of employer contribution directly to their outside health insurer would appear to be very small. The number of employees that would opt for spouse coverage outside of the state coverage, above the number that have already opted out is uncertain. They would have to determine if the after tax amount (there is no cafeteria plan tax savings because the money is not going to a state plan) of the ½ of employer share is equivalent to the additional cost of adding them to their spouse's coverage with another health care provider. The administrative task of reallocating a portion of the current appropriation for employer health care costs to each state agency personal service appropriation would be very difficult and time consuming, since there is no basis to determine how many employees funded by each appropriation would opt out of the health care coverage.

This proposal would require one Accountant I in the Division of Accounting at $25,008 per year to assist in the annual allocation of personal service to all affected agencies, maintain the vendor

file for deductions and provide coordination with the various health insurance companies,
ASSUMPTION (continued)

distribute payments and reports, verify spouse insurance coverage and verify ongoing health insurance coverage.

Oversight assumes there is an unknown number of currently covered state employees that would switch to a spouse's health plan and create a savings to the state.

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state this proposal would provide 50% of the state subsidy for any state employee who waives coverage under HCP. This allotment could be paid direct to the spouse's carrier to offset premium costs or included in the state employee's salary if the other coverage is not paid for by the employee.

After reviewing the proposed legislation, HCP has several questions on how the language would be interpreted and administered. HCP evaluated the language from HCP's perspective and the state employees' perspective.

First, the language only changes the HCP's statute and does not alter other state agencies' subsidy strategies that have separate health programs (Highway and Conservation). The Total Compensation Board and the state employees in these departments may see this as an equity issue.

The language indicates any employee eligible for medical benefits may decline such coverage and receive an amount equal to 50% of the state's calculated cost as determined in RSMo 103.100. The state cost determined in RSMo 103.100 is the statewide average and includes costs for employees and dependents. However, the cost for a specific employee will vary from this amount depending upon the health plan selected, benefit design and level of coverage. For CY2002, the statewide average cost per employee is $381.

Also, HCP’s records indicate 3,315 eligible employees have waived coverage for the CY2002. Currently, if a state employee waives their right to HCP's coverage, no subsidy is allotted. This language would potentially add cost of a 50% subsidy to all state employees who aren't currently covered by HCP.

However, HCP cannot determine: (1) how many of these who waived are covered by a spouse or are uninsured and (2) how many additional currently covered state employees have the opportunity to switch to a spouse's health plan and, therefore, offset the new costs for employees not currently covered.

Other issues recognized with this proposed language include: (1) Administrative issues tracking insurance coverage for members who opt to receive the subsidy in their salaries. HCP would need to determine if members are continuing the alternate coverage or have termed after a month

or two. (2) Equity issues in what the subsidy can buy. Assurances must be in place to ensure that the subsidy, along with any contribution by the second employer do not exceed the total premium. (3) Legislation passed last year allows state employees the option of continuing HCP's coverage at retirement if they: (a) were enrolled when first eligible, (b) enrolled during the last Open Enrollment period or (c) enrolled upon retirement with 6 months previous coverage. The market conditions are not conducive for private employers offering or continuing to offer retiree health care coverage. Therefore, these members may re-enroll with HCP at retirement. This class of members are high utilizers which is reflected in the premium. (4) The subsidy would become taxable income for these state members. (5) Employees who opt to have their state subsidy sent directly to the spouse's plan would lose the tax savings of the Cafeteria Plan. Only state sponsored health plans are allowed under the Cafeteria Plan.

Finally, HCP assumes fiscal impact is unknown and dependent upon two items.
1. How many of the 3,315 employees currently not covered will qualify for the subsidy and, consequently, increase the state costs and how much of this will be offset by currently covered employees opting out?
2. Will those opting out be higher or lower utilizers of service and will this be reflected in the premiums?

Officials from **MOSERS (MOS)** assume that this proposal has the potential to affect the final average salary (FAS) that is used in the calculation of a retirement benefit. For example, if a salary is increased $100 per month (to compensate the employee for not carrying state sponsored medical insurance), that new salary amount would be taken into consideration at the time the member retires (the formula is based on a multiplier x service x FAS). Additionally, the state would be required to submit retirement contributions on the new salary amount (8.81% of payroll).

Oversight assumes (based on COA's estimated costs) 8.81% of contributions to the current 3,315 employees who are currently not in the state health care plan would cost $572,570 in FY 03; $754,985 in FY 04; and $830,247 in FY 05 in additional retirement contributions.

Officials from the **Department of Public Safety - Missouri State Highway Patrol** defer their fiscal note response to the Department of Transportation.

Officials from the **Department of Transportation (DHT)** state that since the Highway and Patrol Medical Plan does not fall within Chapter 103 RSMo, there would be no fiscal impact to DHT, or the Highway & Patrol Medical Plan.

Officials from the **Missouri Department of Conservation (MDC)** assume the MDC's self-funded insurance plan is excluded from this proposed legislation. Consequently, MDC assumes
ASSUMPTION (continued)

no fiscal impact.

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
ALL FUNDS			
Savings - Office of Administration			
Decreased state contributions	Unknown	Unknown	Unknown
Costs - Office of Administration			
Increased state contributions-health care	($6,465,075)	($8,533,899)	($9,387,289)
Increased state contributions–MOSERS	($572,570)	($754,985)	($830,247)
Personal Service (1 FTE)	($25,008)	($26,274)	($26,931)
Fringe benefits	($9,005)	($9,461)	($9,698)
Total Costs - Office of Administration	($7,071,658)	($9,324,619)	($10,254,165)
ESTIMATED NET EFFECT TO ALL FUNDS	**Unknown to ($7,071,658)**	**Unknown to ($9,324,619)**	**Unknown to ($10,254,165)**

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal allows state employees who decline medical benefits provided by the state to receive an amount equal to 50% of the amount that these benefits would have cost the state. The proposal requires that the amount be paid directly to the health insurer providing health insurance to the employee or be added to the employee's salary upon submission of proof that the employee is receiving health insurance coverage.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Department of Public Safety -
Missouri State Highway Patrol
Missouri Department of Conservation
Missouri Consolidated Health Care Plan
Department of Transportation

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